

CITY OF FORT LAUDERDALE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section in the Comprehensive Annual Financial Report has been developed in accordance with the Governmental Accounting Standards Board (GASB) Statement Number 34. It is intended to provide the readers of this report with a general overview of the financial activities of the City during FY2003. The information in this section should be considered only in the context of the Transmittal Letter at the beginning of this report, as well as the financial statements and notes to financial statements to follow.

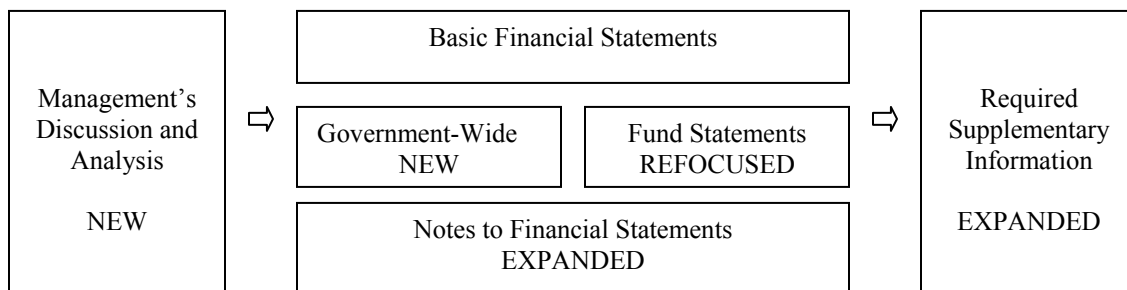
Financial Highlights

The following are the highlights of financial activity for the fiscal year ending September 30, 2003:

- The City's total assets exceeded its liabilities at September 30, 2003 by \$582 million (net assets). Of this amount, \$141 million was from governmental activities and \$441 million was from business-type activities.
- The City's revenues for governmental activities, excluding transfers, were \$231 million, a 9% increase over FY2002. The expenses for governmental activities increased by 5% to \$235 million.
- The business-type activities revenues remained relatively constant at \$112 million while expenses increased by \$22 million. The write-off of an impaired capital asset accounted for \$16 million of the increase.
- The General Fund's fund balance decreased by \$4.2 million due to a lower than anticipated fund balance at the end of FY2002 and the use of working capital reserves during a tight financial year. The unreserved undesignated balance is \$875,122 compared to \$0 at the end of FY2002.
- The City's long-term debt outstanding increased by \$95 million with the issuance of \$17 million new debt for governmental activities capital needs and \$90 million for business-type activities.
- The total fair market value of the City's investments at September 30, 2003 was \$887 million. Interest rates remained at historically low levels during the fiscal year. Interest earnings for the General Fund were less than the amount received in FY 1998.

Overview of Financial Statements

The City is reporting under the GASB 34 reporting model. Management's Discussion and Analysis is only a portion of the new features of this format.



The basic financial statements are comprised of government-wide statements that offer a summary of financial activity and more specific fund statements that present more detailed information.

The **Government-Wide Statements** (pages 11 through 13) include the statement of net assets and statement of activities. They are new to governmental reporting and are designed to provide a broad overview of the City as a whole similar to private sector financial statements. The *statement of net assets* shows the total assets and liabilities for the City with the difference being net assets. The change in net assets over time may be an indicator of the City's financial health. The *statement of activities* provides a breakdown of revenues and expenditures by functions. Those generally supported by taxes and intergovernmental revenues such as police, fire-rescue, parks and recreation, and public services are considered governmental activities. Those functions that are primarily funded through user fees and charges are identified as business-type activities. In Fort Lauderdale, the latter activities include Water and Sewer, Sanitation, the Parking System, the Executive Airport, and Stormwater.

The government-wide statements include component units such as the City's Community Redevelopment Agency (CRA) and the Sunrise Key Safe Neighborhood District even though they are technically not part of the primary City government. The City Commission acts as the Board of Directors of the CRA and the City Commission is required to adopt the millage rate for the Sunrise Key District when it adopts the property tax levies for City operations and debt service. These financial statements do not include fiduciary funds such as the employee pension plans because those resources cannot be used for the City's activities. Details of the fiduciary funds are provided in the fund statements.

The **Fund Financial Statements** found on pages 14 through 27, have appeared in previous financial reports and are expanded under the new reporting model. The City of Fort Lauderdale uses fund accounting to track the sources and uses of resources for specific purposes. The City categorizes funds into three basic fund types: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds (beginning on page 14) are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the previous statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison highlights the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances offer a reconciliation to assist with this comparison.

The City of Fort Lauderdale maintains 19 individual governmental funds. Of this number, only the General Fund is considered a major fund and thus is reflected separately in the fund financial statements. All the other governmental funds are combined for presentation purposes as nonmajor funds.

Proprietary Funds (beginning on page 21) are comprised of two different categories. Enterprise funds are the equivalent of business-type activities in the government-wide statements. These include Water and Sewer, Sanitation, the Parking System, the Executive Airport, and Stormwater. Internal service funds include vehicle rental, central services (telecommunications, print shop, and central stores), and insurance services. The latter functions provide support to

internal City departments rather than services to the public. These funds are also reported as either major or nonmajor funds depending upon the significance of their financial activity.

Fiduciary Funds (beginning on page 26), which are not included in the government-wide statements, are presented in this section and include the City's Police and Fire Pension Plan and the General Employee Retirement System as well as the financial activity of the Arts and Science District Garage.

Notes to Financial Statements (beginning on page 28) are integral to a complete understanding of both the government-wide and fund financial statements.

Other Information

This report additionally includes required supplementary information (RSI) containing the progress of the City's employee pension obligations. The combining statements in connection with non-major governmental and enterprise funds, internal service funds, fiduciary funds and non-major component units are presented following the required supplementary information.

Additional statistical information is presented to give report users a better historical perspective and assist in assessing current financial status and trends of the governmental unit. Economic data is presented to allow a broader understanding of the economic and social environment in which the City government operates.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time to be a useful indicator of a governmental entity's financial position. The table below summarizes Fort Lauderdale's net assets for the 2003 and 2002 fiscal years.

City of Fort Lauderdale, Florida Net Assets (in thousands of \$)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 122,677	122,461	204,708	132,845	327,385	255,306
Capital assets	186,239	176,669	360,650	344,226	546,889	520,895
Total assets	<u>308,916</u>	<u>299,130</u>	<u>565,358</u>	<u>477,071</u>	<u>874,274</u>	<u>776,201</u>
Long-term liabilities outstanding	143,752	132,883	102,948	17,121	246,700	150,004
Other liabilities	24,362	24,295	21,112	13,977	45,474	38,272
Total liabilities	<u>168,114</u>	<u>157,178</u>	<u>124,060</u>	<u>31,098</u>	<u>292,174</u>	<u>188,276</u>
Net Assets:						
Invested in capital assets						
net of related debt	89,689	88,122	351,541	340,916	441,230	429,038
Restricted	37,472	31,773	5,444	6,785	42,916	38,558
Unrestricted	13,641	22,057	84,313	98,272	97,954	120,329
Total net assets	<u>\$ 140,802</u>	<u>141,952</u>	<u>441,298</u>	<u>445,973</u>	<u>582,100</u>	<u>587,925</u>

The City's investment in capital assets (land, buildings, improvements and equipment) net of the related debt outstanding used to acquire those assets represents 76% of its net assets. The City uses these capital assets to provide services to its citizens and, therefore, they are not available for future spending. Further, the resources needed to repay the debt incurred to acquire these assets must come from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another component of net assets (7%) represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (17%) may be used to meet the City's ongoing obligations to its citizens and creditors.

Total net assets declined by \$5.8 million, resulting from a loss in value (\$15.9 million) of the City's compost plant that is no longer in service to the public in the business-type activities. The following table summarizes changes in net assets for governmental and business-type activities for the past two fiscal years.

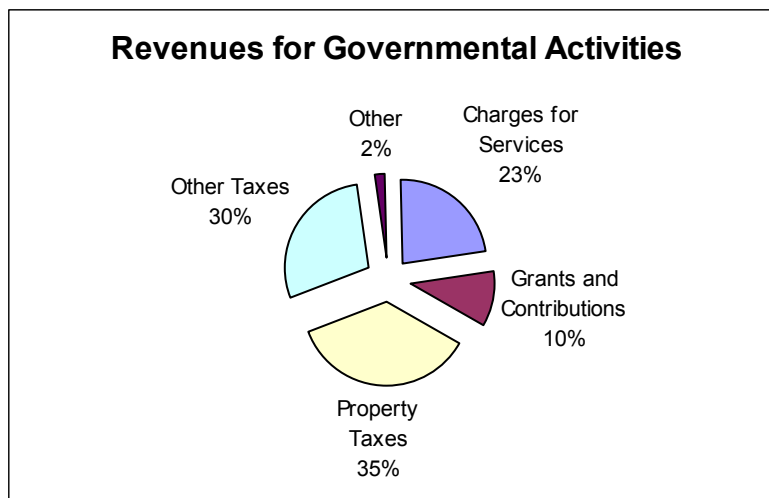
City of Fort Lauderdale, Florida
Changes in Net Assets
(in thousands of \$)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:	\$					
Charges for services	52,792	47,156	106,541	99,637	159,333	146,793
Operating grants/contributions	18,867	19,415	108	428	18,975	19,843
Capital grants/contributions	4,850	2,298	1,858	6,340	6,708	8,638
General revenues:						
Property taxes	81,615	73,911	-	-	81,615	73,911
Other taxes	68,182	63,655	-	-	68,182	63,655
Investment earnings	3,230	2,754	3,337	4,441	6,567	7,195
Other	1,578	2,296	22	540	1,600	2,836
Total revenues	<u>231,114</u>	<u>211,485</u>	<u>111,866</u>	<u>111,386</u>	<u>342,980</u>	<u>322,871</u>
Expenses:						
General Government	30,348	28,390	-	-	30,348	28,390
Public Safety	131,672	125,423	-	-	131,672	125,423
Physical Environment	7,465	6,823	102,111	80,148	109,576	86,971
Transportation	7,926	6,238	11,936	11,796	19,862	18,034
Economic Environment	17,209	16,903	-	-	17,209	16,903
Culture and Recreation	36,704	34,647	-	-	36,704	34,647
Debt Service	3,434	4,110	-	-	3,434	4,110
Total expenses	<u>234,758</u>	<u>222,534</u>	<u>114,047</u>	<u>91,944</u>	<u>348,805</u>	<u>314,478</u>
Increase (decrease) in net assets before transfers	(3,644)	(11,049)	(2,181)	19,442	(5,825)	8,393
Transfers	<u>2,494</u>	<u>2,332</u>	<u>(2,494)</u>	<u>(2,332)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>(1,150)</u>	<u>(8,717)</u>	<u>(4,675)</u>	<u>17,110</u>	<u>(5,825)</u>	<u>8,393</u>
Net assets beginning of year	<u>141,952</u>	<u>150,669</u>	<u>445,973</u>	<u>428,863</u>	<u>587,925</u>	<u>579,532</u>
Net assets end of year	<u>\$ 140,802</u>	<u>141,952</u>	<u>441,298</u>	<u>445,973</u>	<u>582,100</u>	<u>587,925</u>

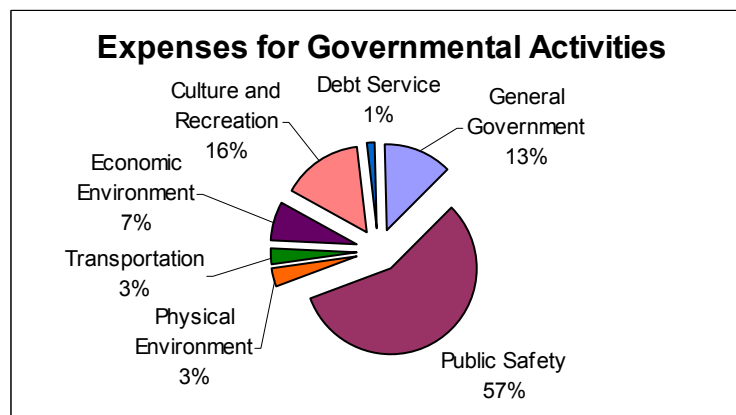
Revenues from governmental activities increased by 9.3% overall. Each of the major revenue sources showed favorable results, including a 12% increase in charges for services and property tax increases (including voted debt levies) of 10.4%. Other taxes (utility, franchise, communications services and sales taxes) increased by 7% and grants and contributions used for both operating and capital needs were up by 9.2%.

Expenses for governmental activities increased by 5.5%. The largest increase on a percentage basis occurred in the transportation category where an additional \$1.7 million in capital maintenance and grant funds were expended on City streets and waterways and to supplement funds expended by Broward County for mass transit. The next largest increase (9%) was for added personnel in the Public Services department to support an acceleration in the City's capital improvement program in the area of infrastructure.

The graphs that follow illustrate the percentage relationships among revenues by source and expenditures by function for governmental activities.



Property taxes represent over one-third of the revenues for governmental activities while other taxes such as utility taxes and franchise fees comprise 30% of the total revenues available.



Expenses for Governmental Activities are guided by City priorities of Public Safety (Police, Fire-Rescue, and Building Inspection) that consume over half of all expenses.

As noted earlier, total revenues in the business-type activities remained relatively flat, increasing by only \$0.5 million. Charges to customers for services grew by almost \$7 million while capital grants and contributions declined by \$4.5 million. The decline was due to the completion of grant-funded improvements at the City's executive airport in the prior year.

Aside from the loss in value of the impaired capital asset, expenses for business-type activities increased by \$6.2 million, which is slightly less than the growth in charges for services revenues used to support the activities.

Analysis of the Government's Funds

The City of Fort Lauderdale uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements for *governmental funds* provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Fort Lauderdale's financing requirements. In particular, unreserved fund balance may be useful as an indicator of a government's net resources available for spending at the end of the fiscal year.

The General Fund balance at September 30, 2003 was \$4.5 million with \$875,122 unreserved and undesignated. Last year, there was no unreserved undesignated fund balance. The General Capital Projects Fund had a fund balance of \$15.2 million with \$5.8 million unreserved and all designated for the FY 2004 capital budget. Overall, governmental funds ended with \$80.8 million in fund balance including \$33.5 million unreserved.

The City's governmental activity debt increased by \$8 million as general obligation bonds outstanding dropped \$3.1 million, excise tax bonds by \$7.6 million and tax increment bonds by \$300,000. Further, loans increased by \$17.3 million due to both refunding of excise tax bonds and new borrowings for capital needs. Capital leases increased by \$1.7 million for additional public safety equipment.

The City's *proprietary funds* are presented in more detail in the fund statements but represent the same activities reflected in the business-type activities. Proprietary funds also include internal service funds. In FY 2003, the Water and Sewer Fund had an operating loss of \$6.4 million compared to operating income of \$6.3 million in 2002 due to the write down of the compost plant. The Parking System had operating income of \$1.8 million, \$1 million more than 2002 due to increases in parking citation revenue after moving the enforcement function to the Police Department.

At September 30, 2003, the City's insurance fund had assets of \$4.6 million but liabilities of \$25.2 million of which \$24.7 million represent estimated claim liabilities. The City has been without the services of a full-time, permanent risk manager since July 2002. Therefore, the City has relied on the assistance of two outside consultants, outside actuaries and the City's Insurance Advisory Board to determine the best course of action to rectify this situation. The health plan for general, management and confidential employees has undergone major renovation in the past three years and actually broke even on a cash basis in the FY2003. Increased revenue from employee payroll deductions and City operating funds in FY2004 should reduce the deficit position of the fund. The City anticipates hiring a risk manager by mid-FY 2004. An interim actuarial study will be conducted to determine appropriate premiums for the FY2005 budget. The City has also added one more claims adjuster for liability claims.

General Fund Budgetary Highlights

General Fund revenues came in \$1.5 million higher than the final budget with contractor permits exceeding budget by \$2.6 million and property taxes falling short by \$1.1 million.

Budget appropriations were increased for a variety of contingency requests during the year and to cover higher than expected personnel costs in public safety and operating costs in parks and recreation.

Capital Assets and Debt Administration

The City's investment in capital assets, net of accumulated depreciation, and long-term debt outstanding for governmental and business-type activities are shown in the following tables. Additional information about these activities is available in the financial statements and the notes to the financial statements.

City of Fort Lauderdale, Florida Capital Assets (net of depreciation) (in thousands of \$)

		Governmental Activities		Business-type Activities		Total	
		2003	2002	2003	2002	2003	2002
Land	\$	30,712	29,991	20,236	17,076	50,948	47,067
Buildings		66,504	65,517	93,502	113,765	160,006	179,282
Improvements other than buildings		38,109	37,431	194,319	190,264	232,428	227,695
Machinery and equipment		31,664	31,750	8,296	7,658	39,960	39,408
Infrastructure		124	108	-	-	124	108
Construction in progress		19,126	11,872	44,297	15,463	63,423	27,335
Total	\$	186,239	176,669	360,650	344,226	546,889	520,895

City of Fort Lauderdale, Florida Outstanding Debt (in thousands of \$)

		Governmental Activities		Business-type Activities		Total	
		2003	2002	2003	2002	2003	2002
General obligation bonds	\$	43,005	46,100	-	-	43,005	46,100
Excise tax bonds		15,740	23,360	-	3,355	15,740	26,715
Revenue bonds		-	-	93,975	5,220	93,975	5,220
Tax Increment revenue bonds		4,127	4,415	-	-	4,127	4,415
Capital lease payable		4,563	2,887	-	-	4,563	2,887
Loans payable and other obligations		29,115	11,785	1,325	-	30,440	11,785
Total Debt Outstanding	\$	96,550	88,547	95,300	8,575	191,850	97,122

Economic Factors and Next Year's Budgets and Rates

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, and utilities) and fees (franchise, occupational license) for their governmental activities. For the business-type and certain governmental activities (construction

services and recreational programs), the user pays a related fee or charge associated with the service.

The adopted operating budget for FY2004 is \$377.2 million or 9.3% higher than the FY2003 adopted budget. The General Fund budget for FY2004 is \$215.1 million or 4.4% higher than FY2003. The millage rate was reduced from 5.2685 to 5.1970 but tax revenue will increase due to a rise in the taxable assessed value by \$2.2 billion or 13.7 percent. Water, sewer, and stormwater rates were increased 5% across the board. The City also increased the non ad valorem assessment for fire services by 50 percent.

The adopted General Fund budget in FY2004 assumed significant savings in salaries and benefits through the continuation of the hiring freeze. Shortly after adoption and facilitated by the Acting City Manager, the City has implemented budget savings plans that include furloughs for all employees, layoffs of some City employees, and other actions to not only generate additional fund balance at the end of FY2004 but also ease the balancing of FY2005. Such actions are intended to establish a sustainable budget in the long term.

Requests for Information

This financial report is designed to provide a general overview of the City of Fort Lauderdale's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Fort Lauderdale, 100 North Andrews Avenue, Fort Lauderdale, Florida 33301.